HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## St. John's CMA

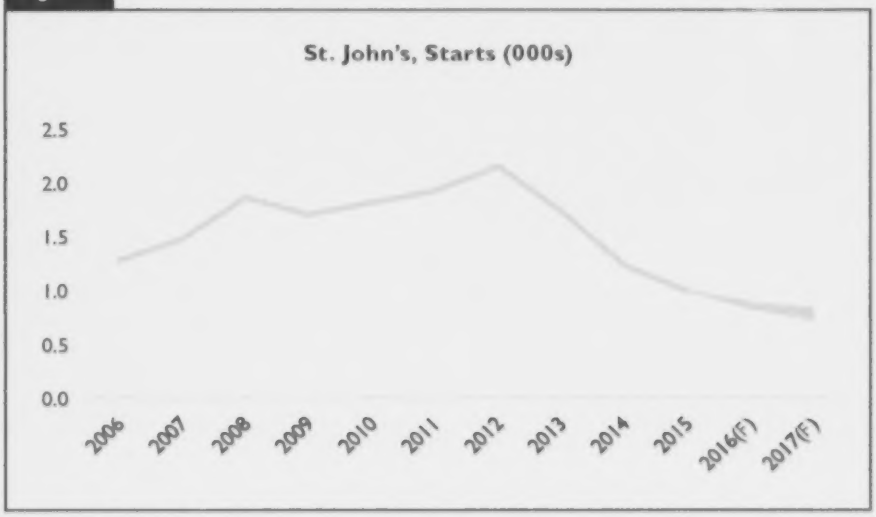
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2016

## Highlights

- Economic weakness will persist, mostly due to lower oil prices.
- Weaker new home construction activity over forecast period.
- MLS® sales and prices expected to be under pressure through 2017.

Figure 1




Source: CMHC, (F): Forecast

The outlook is subject to uncertainty. The forecasts and historical data included in this document reflect information available as of April 29th, 2016.

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## Economic Trends

Economic growth in the St. John's area will be below the pace of the rest of Atlantic Canada's major centres, with negative GDP in both 2016 and 2017. The provincial government's current fiscal situation is unprecedented in terms of the size of the current deficit and total debt. The province will continue to be pressured to look for new revenue sources if oil prices remain lower for an extended period. Beyond the current forecast period, the province's economic future should begin to brighten as energy and resource investment activity rises over the longer term. Oil prices are likely to gradually improve as global supply continues to pull back.

Labour market conditions so far in 2016 have continued to soften for the fourth year in a row. Recent economic weakness has resulted in additional labour pressures for NL and the St. John's area, as the labour market was already being impacted over the last year by the rise in the number of unemployed Alberta commuters. Employment throughout the St. John's area is forecast to decline two per cent in 2016 and 1.3 per cent in 2017. The unemployment rate is expected to remain elevated as labour force and employment pressures continue to mount around a weakening economy that is also being impacted by a lack of new capital project activity.

Figure 2

Source: CREA, (f): Forecast

Population growth is expected to be muted over the current forecast period. With a lack of employment growth, the level of out-migration to other parts of Canada is expected to increase this year and next. A weaker outlook for employment compared to other regions of Canada, will force people to look for opportunities outside the St. John's area. Although it will be lower than recent years, international immigration is expected to remain positive as more refugees come to Canada, including NL. Immigration to NL from outside Canada will also be partially supported by international students coming to St. John's to study.

## New Home Construction

Demand for housing will see continued declines over the forecast period as a result of a negative outlook for population, income and employment. Accordingly, the single-detached housing market will range from 635 to 665 single starts this year and between 575 and 625 starts in 2017.

With no large rental projects expected to break ground over the forecast period, multi-unit construction activity is expected to remain well below prior year levels. Basement apartments and small multi-unit rental projects targeted at seniors and affordable housing projects, are expected to be a key component of market activity. In contrast, semi-detached and row

### Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

units are not expected to contribute significantly to the number of multiple starts over the forecast period. As a result, the range for multiples will be from 190 to 210 units this year and from 160 to 190 units in 2017.

## MLS® Sales and Prices

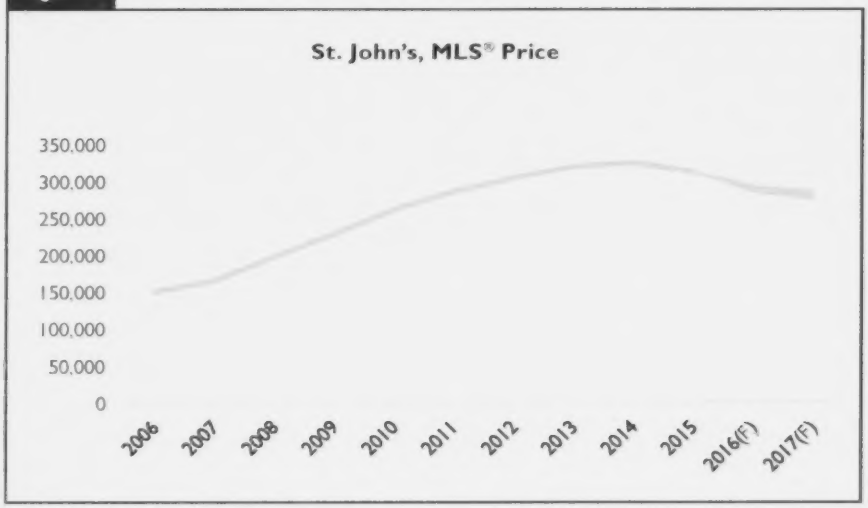
A lack of employment and economic growth did not materially impact sales activity overall in 2015. The same will not be true for either 2016 or 2017, with lower-priced ($200,000 to $300,000) home segment sales activity expected to slow as pent-up demand gets met. That being said, this segment will still represent the largest within the St. John's area housing market at over half of all activity. Lower oil prices, as well as negative economic growth, are also expected to impact resale housing activity over the forecast period. As a result, MLS® sales will range between 3,095 to 3,205 units this year and between 2,915 to 3,085 units in 2017.

Prices declined in 2015 for the first time after several years of significant price growth. For this year and 2017, average residential prices will continue to decline further, driven by a lack of growth in population, income and employment, thus impacting housing demand. Average prices are expected to be in the range of $282,395 to $293,605 this year and $272,215 to $287,785 in 2017.

## Rental Market

A lack of new large rental apartment projects will constrain growth within the rental market universe over the forecast period. As such, average rents are not expected to change materially, while the vacancy rate will see some pressure through 2017 because of economic weakness. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment bungalow homes excluded) is expected to be five per cent this year and 5.5 per cent in 2017. The average two-bedroom monthly rent is expected to increase to $925 in 2016 and 2017.

Figure 3




Source: CREA, (F): Forecast

## Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

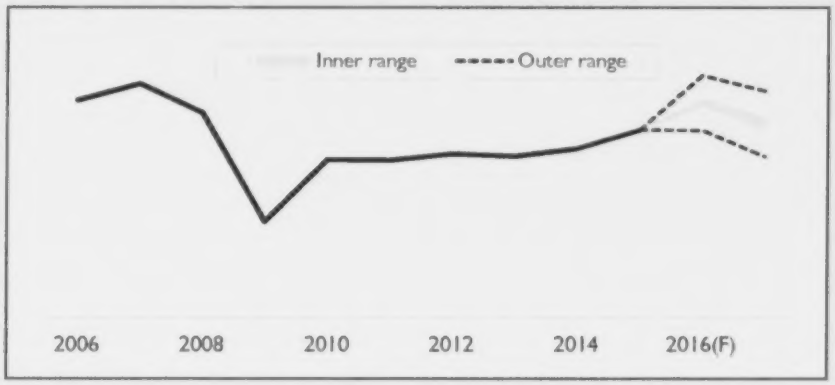
According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

## Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.




* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

## Trends at a glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Interest rates are expected to gradually start rising from current levels in the first half of 2017, becoming less accommodative for housing demand. |
| Employment | A muted labour market in the St. John's area will not be overly supportive of the housing market. People may not spend if they are not certain about their future income and employment opportunities. |
| Income | Average weekly earnings are under pressure, resulting in negative real wage growth, which will not contribute positively to housing demand. |
| Population and Net Migration | Population growth is not expected to be a factor in terms of supporting the housing market over the forecast period. |
| Resale Market | Economic weakness will see MLS® sales lower, with no price growth expected. |

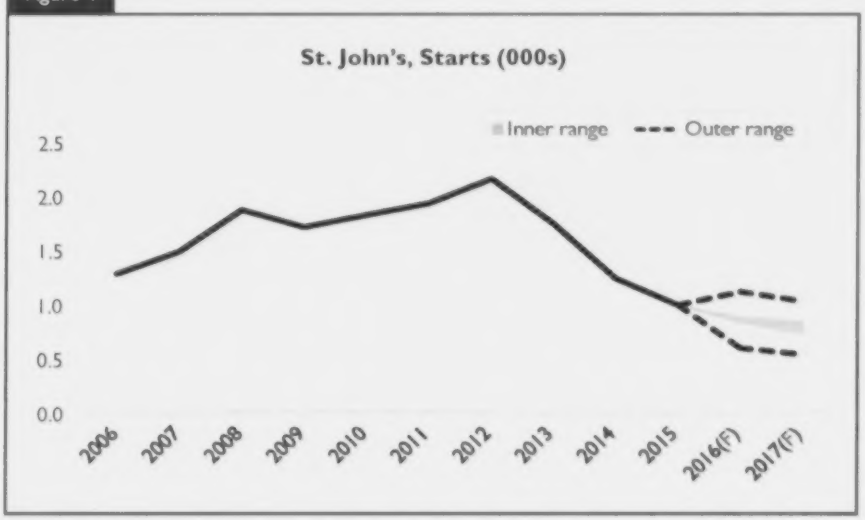
## Forecast Risk Discussion: The Outer Ranges for Starts, Sales and Prices

- This outlook is subject to some risks, which could push the actual activity outside the narrow range included in our forecast. To help communicate these risks, outer ranges have been added to our narrower forecasts.

### Outer Ranges for Starts in 2016 and 2017

- Housing starts reached 985 units in 2015 which was lower than 1,230 units in 2014. Housing starts in St. John's CMA are expected to have an outer range from 590 to 1,110 units in 2016 and from 530 to 1,020 units in 2017.

Figure 4




Source: CMHC, (F): Forecast

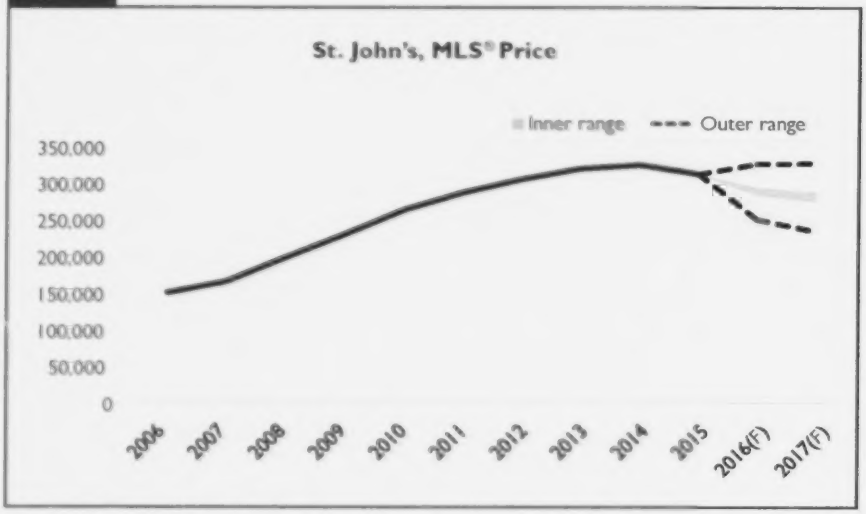
## Risks to the Outlook for Starts in St. John's CMA

- Oil prices are likely to gradually improve as global supply continues to pull back. There is also the risk that supply does not adjust and prices remain depressed, impacting economic growth, thereby pushing starts activity to the lower end of the current range.
- The unemployment rate is expected to remain elevated due to a weakening economy that is also being impacted by a lack of new capital project activity. If oil prices were to improve at a greater than expected rate from current levels, capital project activity would also likely improve. This would cause employment and economic growth to stabilize and improve over the forecast, resulting in starts moving up toward the upper end of the current range.
- With no large rental projects expected to break ground over the forecast period, multi-unit construction activity is expected to remain well below prior year levels. An improving outlook would shift the focus back to new rental projects as the current demographic outlook does support additional demand in a stable economy.

Figure 5

Source: CREA, (F): Forecast

Figure 6




Source: CREA, (F): Forecast

## Outer Ranges for MLS® Sales in 2016 and 2017

- MLS® sales reached 3,378 in 2015 following a slightly lower level of 3,281 sales in 2014.
- MLS® sales in St. John's CMA are expected to have an outer range from 2,905 to 3,395 units in 2016 and from 2,575 to 3,425 units in 2017.

## Risks to the Outlook for MLS® Sales in St. John's CMA

- If first-time buyer activity slows more than expected, MLS® sales activity would remain in the lower end of the current range over the forecast. A further decline in current oil prices, as well as more negative economic growth, would also impact resale housing activity towards the lower end of the range of the forecast. The NL government's fall 2016 mini budget could also have a negative impact if there are significant job losses within the St. John's region.

## Outer Ranges for MLS® Prices in 2016 and 2017

- MLS® prices dropped a bit to $296,812 in 2015 following a slightly higher average price of $306,405 in 2014. MLS® Prices are expected to have an outer range from $249,575 to $326,425 in 2016 and from $233,305 to $326,695 in 2017.

## Risks to the Outlook for MLS Prices in St. John's CMA

- Average residential prices could continue to decline further than expected, driven by a lack of growth in population, income and employment, thus impacting housing demand and prices continuing to shift to the lower end of the range. The NL government's fall 2016 mini budget could also have a negative impact on prices if there are significant job losses within the St. John's region. An increase in MLS® sales activity, tied to better economic growth than expected, would reduce the supply of resale homes available to potential buyers, helping to stabilize and shift house prices toward the upper end of the forecast range.

| Forecast Summary<br>St. John's CMA<br>Spring 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016(F) | | 2017(F) | |
| | | | | (L) | (H) | (L) | (H) |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,243 | 907 | 729 | 635 | 665 | 575 | 625 |
| Multiples | 491 | 323 | 256 | 190 | 210 | 160 | 190 |
| Starts - Total | 1,734 | 1,230 | 985 | 815 | 885 | 710 | 840 |
| **Resale Market** | | | | | | | |
| MLS® Sales | 3,617 | 3,281 | 3,378 | 3,095 | 3,205 | 2,915 | 3,085 |
| MLS® Average Price($) | 301,333 | 306,405 | 296,812 | 282,395 | 293,605 | 272,215 | 287,785 |
| **Economic Overview** | | | | | | | |
| Mortgage Rate(5 year)(%) | 5.24 | 4.88 | 4.67 | 4.40 | 5.00 | 4.70 | 5.30 |

| | 2013 | 2014 | 2015 | 2016(F) | 2017(F) |
|---|---|---|---|---|---|
| **Rental Market** | | | | | |
| October Vacancy Rate (%) | 3.2 | 4.6 | 4.7 | 5.0 | 5.5 |
| Two-bedroom Average Rent (October)($) | 864 | 888 | 923 | 925 | 925 |
| **Economic Overview** | | | | | |
| Population | 209,069 | 212,257 | 214,285 | 214,000 | 212,000 |
| Annual Employment Level | 114,000 | 116,300 | 115,900 | 113,500 | 112,000 |

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Newfoundland and Labrador Association of REALTORS®. CMHC Forecast (2016-2017).

# DEFINITIONS AND METHODOLOGY

## New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

## Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

## Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

## Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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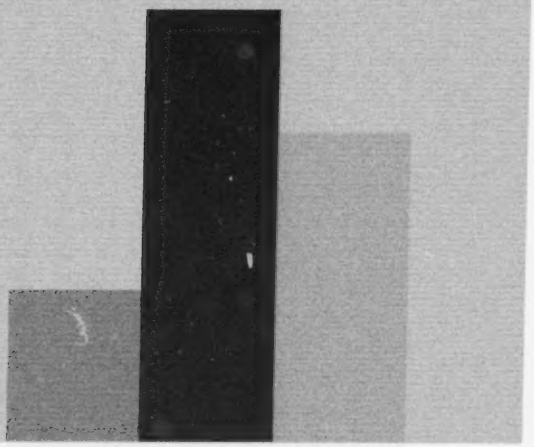

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